

Message Text

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ACTION COME-00

INFO OCT-01 ARA-10 ISO-00 EB-08 STR-05 FEA-01 AGRE-00
CEA-01 CIAE-00 DODE-00 FRB-03 H-01 INR-07 INT-05
L-03 LAB-04 NSAE-00 NSC-05 PA-01 AID-05 SS-15
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R 111837Z NOV 77
FM AMEMBASSY CARACAS
TO SECSTATE WASHDC 9944

CONFIDENTIAL CARACAS 11019

E.O. 11652: GDS
TAGS: ETRD, GATT, VE
SUBJECT: REVIEW OF LOCAL CONTENT REQUIREMENTS AS NON
TARIFF BARRIERS

REF: STATE 258716

1. AS FAR AS EMBASSY IS AWARE, MOTOR VEHICLE INDUSTRY IS ONLY AREA IN WHICH GOV USES LOCAL CONTENT REQUIREMENTS AS NON TARIFF BARRIER. UNDER VENEZUELAN LAW, AUTO ASSEMBLY INDUSTRY DOMINATED TO DATE BY U.S. MANUFACTURERS, INCLUDING AMERICAN MOTORS, GENERAL MOTORS, CHRYSLER AND FORD) MUST INSURE THAT BY BY THE END OF 1977 EACH MOTOR VEHICLE ASSEMBLED IN THIS COUNTRY CONTAINS COMPONENTS PRODUCED LOCALLY AMOUNTING TO 48PCT OF THE VALUE OF THE VEHICLE. FIGURE RISES TO 51PCT IN 1978 AND 78PCT IN 1981. SPECIFIC COMPONENTS TO BE SUPPLIED LOCALLY ARE NOT SPECIFIED BY THE LAW, BUT ASSEMBLERS MUST ANNOUNCE IN ADVANCE TYPES OF COMPONENTS THAT WILL BE OBTAINED LOCALLY. DESIGNED COMPONENTS MAY NOT BE IMPORTED THEREAFTER UNLESS IT CAN BE ESTABLISHED LOCAL SUPPLIERS CANNOT MEET DEMAND.

2. U.S. EXPORTS OF COMPONENTS ARE EXPECTED TO BE AFFECTED SOMEWHAT BY LOCAL CONTENT REQUIREMENTS, ESPECIALLY BY 1981 WHEN ELEMENTS OF POWER TRAIN ARE TO BE PRODUCED

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LOCALLY. BUT AUTO COMPONENT MANUFACTURING INDUSTRY IN VENEZUELA COMINATED BY U.S. FIRMS (KELSEY HAYES, DANA CORPORATION, MONROE, CHAMPION SPARK PLUGS, ETC.). THEREFORE, IN MANY CASES IMPACT OF LAW IS TO SWITCH SOURCE OF SUPPLY FROM PLANT LOCATED IN U.S. TO VENEZUELAN SUBSIDIARY OF US COMPANY.

3. DEVELOPMENT OF INDIGENOUS AND REASONABLY SELF-SUFFICIENT

AUTO INDUSTRY IS KEY ELEMENT OF VENEZUELAN ECONOMIC DEVELOPMENT PLAN. VENEZUELA AND OTHER ANDEAN PACT MEMBERS RECENTLY SIGNED AN AGREEMENT ASSIGNING RESPONSIBILITY FOR THE MANUFACTURE OF DISTINCT TYPES OF AUTOS AND COMPONENTS TO EACH OF THE MEMBER COUNTRIES, WITH THE RIGHT TO MARKET ANY OF FIVE MEMBER COUNTRIES. VENEZUELA GOT A SIGNIFICANT PROPORTION OF THE ASSIGNMENTS. THE INDUSTRY IS ALREADY IN THE PROCESS OF MAKING INVESTMENTS AND OTHER ADJUSTMENTS TO ACCOMMODATE LOCAL CONTENT REQUIREMENTS. FOR THESE REASONS, WE DOUBT THAT GOV COULD BE INDUCED TO AGREE TO REDUCTION OF LOCAL CONTENT TARGETS ESTABLISHED UNDER PRESENT LAW.

4. DEPARTMENT SHOULD NOTE THAT GOV DOES NOT PROHIBIT IMPORT OF CARS BECAUSE OF EXISTENCE OF LOCAL ASSEMBLY PLANTS. IN 1976, FOR EXAMPLE, VENEZUELA IMPORTED AN ESTIMATED \$645 MILLION WORTH OF AUTOS AND OTHER MOTOR VEHICLES, WITH U.S. MODELS ACCOUNTING FOR \$458 MILLION OR 71 PCT OF THE TOTAL.

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